

## ECONOMIC AND FISCAL IMPLICATIONS OF PROPOSITION E

Prepared for:

City of Chula Vista

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## EXECUTIVE SUMMARY

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This report was commissioned by the City of Chula Vista to explore the potential economic and fiscal implications of Proposition E, a ballot proposition scheduled for the June 3, 2008 election. In response to a petition validated by the County Registrar of Voters, the City Council placed Proposition E on the June ballot in January 2008. Proposition E would permanently impose building-height limits throughout the City, generally reflecting existing General Plan and zoning building-height development standards, with a few key exemptions and differences. These building-height limits would only be changed by another ballot measure authorizing any overall change or project-specific exception.

While many factors will influence development potential in the City over time, Proposition E, by establishing building-height limits that can only be changed by another ballot question, would limit the City's development potential and related development activity. This loss of development potential would have related fiscal (municipal revenue) effects. The review and analysis conducted as a part of this report have resulted in the following conclusions:

1. Proposition E would reduce development capacity and financial feasibility of key parcels in the "V-3" district located in downtown Chula Vista. While limited in size, these two sites are important entrances and catalysts to redevelopment of the Third Avenue commercial district.
2. The existing building-height regulations reflected in the Urban Core Specific Plan "V-2" district are too restrictive to incentivize desired redevelopment of Third Avenue. It is unlikely that development, as envisioned in the Specific Plan, would occur without the ability to provide certain variances and exceptions to existing building standards which would be proscribed by Proposition E.
3. Loss of development potential along Third Avenue and the related forgoing of approximately \$1.6 million of net annual property tax increment funding and some \$700,000 of sales tax and population-based subvention revenue annually would reduce the ability of the Chula Vista Redevelopment Agency (RDA) to achieve redevelopment objectives and the City's ability to sustain municipal services.
4. Height restrictions may limit development of certain public or quasi-public buildings including expansion and renovation of the City's two hospitals and development of the University Park and Research Center (UPRC).
5. Proposition E's height restrictions imposed upon the City's other commercial districts would limit their development potential in perpetuity.
6. Implementing Proposition E would require effort and expenditures by the City.

# I. INTRODUCTION

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This report provides an analysis of the potential consequences and economic effects of a proposed ballot proposition restricting building height in Chula Vista, California. On April 17, 2007, the City Council, in response to a County Registrar of Voters-validated petition submitted by a citizens group, referred the "Petition Regarding Allowable Building Height Limits" to City staff for review and analysis. This review and analysis was undertaken pursuant to the provisions of Election Code Section 9212 to specifically to address issues raised by the City Council. On May 15, 2007, the City Council received City staff's review which explored a number of potential effects of the proposed Initiative.

An error in the official noticing for the original Initiative petition required its recirculation. The recirculation of an amended Initiative delayed Council action until 2008. Following receipt of an amended petition validated by the County Registrar of Voters, the City Council, at its meeting held on January 22, 2008, placed the Initiative on the June 3, 2008 municipal election ballot as Proposition E, without conducting further economic analysis as would be permitted under the above-referenced Section 9212 of the Election Code. However, the City Council, as a part of its January 22, 2008 action, discussed the potential economic effects of Proposition E. As the result of this discussion and related concerns regarding its implementation and potential economic and fiscal effects, the Legislative Subcommittee of the City Council, on February 5, 2008, recommended that the City Manager commission this follow-up report.

This analysis of Proposition E explores its effect upon the City's ongoing revitalization and economic development efforts, its effect upon planned public and quasi-public buildings, related potential losses of economic activity and associated public revenue, and its implementation costs. This information can assist the City in responding to the requirements imposed by Proposition E should it be approved by the voters.

This analysis builds upon and expands the analysis prepared by City staff in May 2007 and also refers to previous market studies prepared for the City<sup>1</sup> and prior work conducted by Economic & Planning Systems, Inc. (EPS) in Chula Vista.<sup>2</sup> Additional independent analysis was also conducted by EPS in preparation of this report. The conclusions are the result of the review of the City staff analysis, the previous market analyses, as well as additional research and analysis conducted as a part of the present analysis.

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<sup>1</sup> West Side Residential In-fill Feasibility Analysis, Keyser Marston Associates Inc. (August 2004); City of Chula Vista Urban Core Specific Plan Market Analysis, Economic Research Associates (June 2005).

<sup>2</sup> City of Chula Vista General Plan Growth Management Element and Growth Management Ordinance Update (December 2005) and Urban Core Area Specific Plan Financing Plan (April 2007).

## II. CONCLUSIONS

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Proposition E would permanently impose building-height limits throughout the City, generally reflecting existing General Plan and zoning building-height development standards, with a few key exemptions and differences. These building-height limits would only be changed by another ballot measure authorizing any overall change or project-specific exception.

While many factors will influence development potential in the City, the inflexibility imposed by Proposition E would have several economic effects: (1) it would make revitalization of downtown Chula Vista as envisioned in the Urban Core Specific Plan, particularly along Third Avenue, less likely; (2) it would deter construction of important public and quasi-public buildings (e.g., hospitals); and (3) it would limit future development potential (and related economic benefits) of the City's other commercial districts. The City would also incur direct costs associated with implementing Proposition E, initially and over time if project-specific elections are held.

Except for key areas, Proposition E imposes relatively minor geographic changes in the City's existing zoning and related building-height standards. The substantial majority of Chula Vista's development capacity, pursuant to the General Plan, remains in single-family homes and low-rise commercial development. As this development capacity is largely located in undeveloped areas in the City's eastside, it would be unaffected by Proposition E. The exemption of key development areas (e.g., the Bayfront Planning Area and the Urban Core Area Transit Focus Areas), combined with market forces that are not currently favorable for high-rise development in Chula Vista, would also limit the near-term economic effects of Proposition E except in the downtown area, where immediate effects of Proposition E may have already occurred.

However, the strict building-height standards imposed by Proposition E would limit the City's flexibility to alter building-height standards in perpetuity, replacing the City's normal discretion and development and environmental review procedures. Altering building-height standards established by Proposition E would require a municipal election ballot measure for any project wishing to exceed the prescribed height limits. Conducting such ballot measures would be time-consuming, daunting, costly, and risky from the perspective of applicants. Accordingly, even projects with a high degree of merit from a public perspective may be deterred from pursuing such ballot measures or may lose the election. Experience with this type of ballot measures around California indicates that success at gaining approval is no greater than 20 percent.<sup>3</sup>

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<sup>3</sup> Personal communication, William Fulton, publisher, *California Planning & Development Report*, February 2008.

The review and analysis conducted as a part of this report have resulted in the following conclusions:

**1. *Proposition E would reduce development capacity of key parcels in the V-3 district.***

Unlike other portions of the City where Proposition E permanently locks in existing General Plan and Municipal Code height limits, Proposition E specifically reduces the existing Municipal Code-based height limit on seven parcels, totaling 1.72 acres. These parcels currently in the V-3 district, located at the “bookends” of the Third Avenue Village (at its intersections with E Street and G Street), range from 45-foot to 84-foot limits, thus limiting their existing development potential. The termination of two exclusive negotiating agreements on these two sites is directly related to the inability to achieve a building form consistent with the Urban Core Specific Plan. The V-3 designation of these specific parcels in the Urban Core Specific Plan was specifically intended to catalyze development along Third Avenue. While these two sites are small in size, forgoing feasible development on these parcels would very likely reduce development potential on the intervening parcels along Third Avenue.

**2. *The existing building-height regulations reflected in the Urban Core Specific Plan V-2 district are too restrictive to incentivize desired redevelopment of Third Avenue.***

Proposition E locks in the 45-foot height limit along Third Avenue between E Street and G Street, as established by the Urban Core Specific Plan. It is unlikely that without the ability to approve variances allowing some buildings above 45 feet in the V-2 district, at least adding another story or two (i.e., up to four stories over a street-front retail podium), any private investment in redevelopment of existing buildings would occur. This conclusion regarding development financial feasibility reflects: current market conditions (prospective price points for residential and commercial real estate), the high cost of land acquisition and assembly, the relatively high construction costs for mixed-use development, parking and open space requirements, as well as existing code-based building-height restrictions. While market conditions are destined to improve, Proposition E, by permanently restricting the City’s ability to make even minor adjustments in the building-height restrictions through the normal planning and development and environmental review process, would effectively eliminate the potential for the desired mixed-use development projects along Third Avenue in the foreseeable future.

**3. *Loss of development potential along Third Avenue would reduce the ability of the RDA to achieve redevelopment objectives and the City's ability to sustain municipal services.***

Currently, the Chula Vista RDA has very limited financial capacity to stimulate development in the downtown area. The success of the RDA depends upon development-driven growth of its assessed value and related property tax increment flows. Loss of development potential in the Urban Core Area would have corresponding negative impacts on the RDA's ability to pursue its redevelopment objectives in the area. If development as envisioned in the Urban Core Specific Plan along Third Avenue fails to occur, over \$2 million in annual property tax increment funding along with related bond capacity may not be realized.

Redevelopment of the Third Avenue area, envisioned to create a vital mixed-use district, would produce a range of other municipal revenues from the economic activity generated and the new local population, including sales taxes and development and population-related funding. It is estimated that some \$700,000 of municipal revenues would be generated by successful redevelopment of Third Avenue. In addition to ongoing municipal revenues, the City would not gain development-related funding (impact fees and service charges) normally flowing to support City services and infrastructure improvements. In lieu of such redevelopment, the current built form would continue to exist. Opportunities for increasing the quality and performance of retail business in the area would be diminished considerably.

In response to Proposition E, the RDA would need to refocus its redevelopment efforts on other sites lacking the 45-foot height limit, including the unaffected portions of the V-3 district and the Transit Focus Areas. Under this scenario the Third Avenue commercial district would remain essentially as it is, in older single-story buildings, for the foreseeable future thus continuing its pattern of economic decline.

**4. *Height restrictions may limit development of certain public or quasi-public buildings.***

A number of quasi-public buildings currently being considered might exceed 84 feet. These include the City's two hospitals, Sharp Chula Vista Medical Center and Scripps Mercy Hospital. Because of increasing demand for medical services, both hospitals are developing master plans that include buildings that would exceed 84 feet in height. Site constraints, operational efficiency considerations, and building economics all require such high-rise construction. Restrictions on expansion can have significant effects on hospital operations and their ability to maintain adequate services to the community over time.



In addition to their essential role in promoting public health and safety, hospitals are significant generators of economic activity, directly creating a large number of high-paying jobs and demand for ancillary facilities (medical offices, pharmacies, etc.) in the surrounding area. This is particularly important in the downtown areas, where, as is the case with Scripps Mercy Hospital in Chula Vista, they serve as an “anchor” land use, attracting people who patronize other businesses in the area.

It is likely that the proposed University Park and Research Center site would be more attractive if there is an ability to include high-rise structures. The trend in university construction, especially for the student residential component of a campus, is toward high-rise buildings, particularly where land is at a premium. An 84-foot height limit would be restrictive in this regard. Development economics suggest that steel-frame buildings are typically in the range of 100 to 120 feet to be feasible and efficient. The university project has substantial economic benefits that would be limited if modern and efficient building forms are prohibited.

**5. *Height restrictions imposed by Proposition E upon the City's other commercial districts would limit their development potential in perpetuity.***

Proposition E would impose permanent height restrictions on two commercial districts, totaling 234 acres, that currently lack any building-height standards (the “C-B” and “C-C” districts). The Initiative would also limit the ability for other commercial districts that presently have building-height standards to obtain variances or gain rezoning through normal procedures, which may limit the City's economic development potential.

While current market conditions do not indicate demand for high-rise buildings (above 84 feet) in the City's other commercial districts, Proposition E would limit development potential of these commercial areas. This may eventually have negative economic and fiscal effects on the City by limiting development of commercial areas that may otherwise occur.

**6. *Implementing Proposition E would require effort and expenditures by the City.***

In addition to election-related costs for Proposition E, the City would incur costs for the required amendments to the General Plan and Municipal Code zoning provisions. The election-related costs are in the range of \$50,000 per each subsequent ballot measure at a general election and \$500,000 for a special election. The City could recover these costs by charging them to the applicant seeking the initiative to alter height restrictions; however, this could be a further deterrent for projects seeking an exemption. Amendments to the General Plan and the Municipal Code zoning provisions would require some staff time including the associated technical efforts, legal review, environmental review, and participation in the required public hearing proceedings.

### III. BACKGROUND

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#### PROPOSITION E

Proposition E evolved from concerns about the height of proposed buildings, particularly in the downtown area of western Chula Vista. This concern was stimulated by controversy surrounding a particular project proposal in the downtown area.<sup>4</sup> The issue was further engaged as a part of the preparation of the Urban Core Specific Plan. As the result of these concerns, the Specific Plan imposed new height restrictions as a part of Municipal Code zoning regulations reflecting considerable community participation and input. However, the proponents of Proposition E believe that more stringent restrictions are necessary to ensure that building heights would be permanently limited to those specified in the Urban Core Specific Plan and the General Plan. Specifically, Proposition E contains the following language in the section addressing the purpose of Proposition E:

*The people of Chula Vista should have a voice in protecting the General Plan against changes that will increase traffic congestion, overburden existing facilities including parking and cause visual impacts from high rise development in the wrong locations. The people of Chula Vista are also concerned about the protection of the character of the Third Avenue Village area, where over-development would also have visual, traffic and parking impacts.*

Proposition E would permanently “lock in” existing height restrictions by requiring the placing of a ballot measure on a municipal election on any particular development project proposed to exceed Proposition E-prescribed height limits.

#### KEY PROVISIONS OF THE INITIATIVE

Proposition E would impose permanent height limits on new buildings in Chula Vista. These limits would generally conform to existing zoning ordinance limitations, through amending the City of Chula Vista General Plan, as described in Section 2 of Proposition E, with the following provisions:

*A. Approval of Changes to Height Limits. No change to the General Plan that has the purpose or effect of increasing the allowable building height within any area above 84 feet shall take effect unless and until it is approved by a simple majority vote of those voting in the City at an election, except as permitted under the Chula Vista General Plan Update as approved December 13, 2005 or this enactment. This limitation shall apply to any change in the General Plan, whether approved as a general plan change, specific plan, or by any similar action.*

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<sup>4</sup> The proposed Espanada project was a mixed-use project located on H Street between Third and Fourth Avenues.

*No voter approval shall be required for any General Plan changes affecting the Bayfront Planning Area, as identified in the Land Use Element of the Chula Vista General Plan as amended and adopted in 1989, or any area west of Interstate 5.*

*B. Protection of Third Avenue Village. No building that is part of any development in the Third Avenue Village, which fronts on Third Avenue between E Street and G Street, shall exceed 45 feet in height, notwithstanding any other provision of the Chula Vista General Plan.*

*C. Building Height. For the purposes of paragraphs A and B, building height shall be calculated from the average contact ground level of the building to the highest point of the building, including any rooftop appurtenances.*

*These provisions shall not apply to amendments which are necessary to comply with state or federal law.*

## REDUCTIONS IN EXISTING CODE-BASED HEIGHT LIMITS

Proposition E-proposed height limits, viewed citywide, would generally be equal to or would be higher than those presently reflected in the Municipal Code. Proposition E would provide more restriction than existing zoning in four zoning districts:

- The C-B and C-C districts, which currently have no height limits. Some 234 acres are located in these districts around the City.
- The “I” district, located entirely in the Bayfront Planning Area, which is exempted from the building-height restrictions imposed by Proposition E.
- The “PC” district, which covers some 1,961 acres located in the Otay Ranch and other eastern neighborhoods (although the existing Sectional Planning Area [SPA] plans adopted for these areas generally restrict development below the 84-foot limit imposed by Proposition E).

## EXEMPTED AREAS

Proposition E identifies (in Section 2.A.) certain areas to be exempted from the maximum 84-foot height limit imposed elsewhere in the City. The City’s Bayfront Planning Area is explicitly mentioned. There is also ambiguous language that apparently exempts other areas—“except as permitted under the Chula Vista General Plan Update as approved December 13, 2005.” It is assumed that these exempted areas include the two Transit Focus Areas identified in the Urban Core Specific Plan and the Eastern Urban Center, as delineated in the City’s General Plan. In each of these cases, existing General Plan and related Municipal Code zoning restrictions would continue to

be in place unless changed by a subsequent rezoning action that would be categorically exempt from the provisions of Proposition E.

## INTERPRETIVE ISSUES

The Staff Report pointed out several interpretive issues that need to be clarified and resolved as a part of the implementation of Proposition E:

- The definition of “building,” as written in Proposition E, “allowable building height” could be interpreted as applicable to all structures including antennas, spires, appurtenant towers, stadiums, public buildings, etc., which currently commonly exceed 84 feet in the City. This definition would need to be clarified to avoid undue restrictions on necessary public safety structures and communications equipment.
- The exempted areas language quoted above could be the source of dispute because the areas are not precisely delineated. It would be clearer if these areas were explicitly referred to in the manner of the Bayfront Planning Area. Implementing language amended into the General Plan and Municipal Code should provide this explicit delineation if Proposition E is approved.

These interpretive issues, and others that may arise as implementation is under way, would require definitive action on the part of the City to avoid lack of clarity and direction subsequently when individual project applications are being reviewed as part of the City’s development review process.

## EXISTING REGULATIONS REGARDING BUILDING HEIGHT

Building-height regulations are specified for each of the City’s zoning ordinance districts, including those in the Urban Core Specific Plan. **Table 1** presents existing zoning height limits throughout the City. At the present time, these provisions limit height in the substantial majority of the City’s territory, which is in the various residential districts, to below 28 feet, well below the 84-foot limit established by Proposition E. The City’s commercial zoning districts vary in height restrictions from 35 feet (neighborhood commercial) to 45 feet in other commercial districts, with some exceptions. There are no code-based restrictions on the public/quasi-public zone or the planned community zone (where height limits are set by a precise plan).

The Urban Core Specific Plan establishes new height restrictions, which are presented in **Table 2**. Currently, projects seeking building heights above those set by the applicable zone district must seek a variance or a rezoning from the City following established administrative and discretionary procedures. Variances and rezonings offer the flexibility that is an important part of the City’s land use regulation and economic development efforts.

**Table 1**  
**Analysis of the Proposed Chula Vista Building Height Initiative, EPS #18024**  
**City of Chula Vista Building Height Restrictions**

<b>Zone</b>	<b>Principal Building Maximum Height</b>	<b>Accessory Building Maximum Height</b>
R-E: Residential Estates Zone	2.5 stories or 28 feet	1.5 stories or 15 feet
R-1: Single-Family Residence Zone	2.5 stories or 28 feet	1.5 stories or 15 feet
MHP: Mobilehome Park Zone	--	--
R-3: Apartment Residential Zone		
R-3, R-3-M, R-3-T and R-3-G [1]	2.5 stories or 28 feet [1]	2 stories or 25 feet
R-3-H	Shall not be LESS than 46 feet or 5 stories.	Shall not exceed either two stories or 25 feet.
C-O: Administrative and Professional Office Zone	3.5 stories or 45 feet	1.5 stories or 15 feet
C-B: Central Business Zone	None, except that no building shall exceed 3.5 stories or 45 feet in height when located adjacent to any C-O or residential zone. [2]	--
C-N: Neighborhood Commercial Zone	2.5 stories or 35 feet	1.5 stories or 15 feet
C-C: Central Commercial Zone	None, except that no building shall exceed 3.5 stories or 45 feet in height when located adjacent to any C-O or residential zone.	--
C-V: Visitor Commercial Zone	3.5 stories or 45 feet	--
C-T: Thoroughfare Commercial Zone	3.5 stories or 45 feet	--
I-R: Research Industrial Zone	3.5 stories or 45 feet; however, may not exceed 2 stories or 35 feet when located within 200 feet of any residential zone or any area designated for future residential development in General Plan.	--
I-L: Limited Industrial Zone	3.5 stories or 45 feet	--
I: General Industrial Zone	Within 200 feet of any R zone or A zone designated for future residential use in the General Plan, may not exceed 3 stories or 50 feet; otherwise, no building or structure shall be erected to such a height that the commission finds might be detrimental, to the light, air or privacy of any other structure or use, existing or reasonably anticipated.	--
P-Q: Public/Quasi-Public Zone	--	--
P-C: Planned Community Zone	--	--
F-1: Floodway Zone	--	--
T: Tidelands Zone	--	--
Unclassified Uses	The requirements for building height limit applicable to the particular property and zone in which such use is proposed shall prevail unless, in the findings and conditions recited in the resolution dealing with each matter, specific exceptions, additions or modifications are made with respect thereto.	--

[1] Principal buildings up to 3.5 stories or 45 feet in height may be approved by the design review committee.

[2] A building height in excess of 3.5 stories when adjacent to any C-O or residential zone is a conditional use in the C-B zone.

**Table 2**  
**Analysis of the Proposed Chula Vista Building Height Initiative, EPS #18024**  
**City of Chula Vista Urban Core Specific Plan Building Height Restrictions by Zone**

<b>Zone</b>	<b>Minimum Height (Feet)</b>	<b>Maximum Height (Feet)</b>
V-1: East Village	18	45
V-2: Village	18	45
V-3: West Village	18	84 [1]
V-4: Civic Center	18	60
UC-1: St. Rose	30	84
UC-2: Gateway	45	84
UC-4: Hospital	30	84
UC-5: Soho	30	60
UC-6: Chula Vista Center Residential	18	60
UC-7: Chula Vista Center	18	60
UC-9: Mid-H Street	18	72
UC-10: Chula Vista Center West	18	72
UC-12: H Street Trolley	45	210
UC-13: Mid Broadway	18	60
UC-14: Harborview	30	84
UC-15: E Street Trolley	45	210
UC-16: Broadway Hospitality	18	60
UC-17: Harborview North	18	45
UC-18: E Street Gateway	45	120
UC-19 Feaster School	18	45
C-1: Third Avenue South	18	60
C-2: Broadway South	18	45
C-3: Broadway North	18	45

[1] Buildings fronting Third Avenue between F Street and Park Way are limited to 45 feet in height.

Source: City of Chula Vista Urban Core Specific Plan; Economic & Planning Systems, Inc.

## **REDEVELOPMENT OF THE URBAN CORE AREA**

The City has long sought redevelopment of its historic downtown area along Third Avenue. The area was included in a redevelopment project area decades ago as a part of this effort. Substantial public investments have been made over the years in this area including streetscape improvements, public parking, and various activities and programming. However, until recently, market conditions did not favor significant redevelopment. The area remains lackluster in terms of private investment, the mix of retail and other street-front tenants, overall sales performance, and growth in assessed value. Because of this underperformance, the RDA has very limited property tax increment revenue that is not already committed to previously issued tax increment bond measures.

The Urban Core Specific Plan was conceived as a means to further the City's revitalization and redevelopment efforts in the downtown and surrounding areas of the City. As noted above and documented in the recent market studies previously commissioned by the City, market conditions had become more favorable (at least before the current real estate market downturn). Over the past decade, older urban and suburban neighborhoods around California and the nation have experienced a substantial revitalization and private investment as the result of demographic shifts, continued escalation of suburban housing prices, congestion, and an increasing market acceptance of higher-density urban living. The revitalization and redevelopment of downtown San Diego is a prime example of this market trend. The Specific Plan envisions a revitalized Urban Core Area characterized by attractive mixed-use buildings along the major thoroughfares in the downtown area, while existing residential neighborhoods would be maintained and hopefully upgraded.

## **DEVELOPMENT ECONOMICS**

The economic potential of a property is largely determined by its "highest and best use" in the marketplace and the ability to achieve this use, given use restrictions and also existing site conditions. Economic potential of a readily-developable vacant site tends to be greater than a site with physical constraints or existing uses that need to be displaced, as is the case along Third Avenue in Chula Vista.

Market potential of an area must be considered when evaluating the impact of zoning-based building height and other density restrictions. While such restrictions impose a real limitation on the use of a property, the actual impact on value (and related benefits or costs) is related to the property's economic potential, currently or at some future date. Another aspect of this impact on value is the durability of a restriction. A restriction that can be changed following the appropriate procedures (e.g., a rezoning) has less of an impact than an enforceable restriction (e.g., a deed restriction) or a restriction requiring a public vote to change.

An analysis of development economics was conducted by Economics Research Associates as a part of Urban Core Specific Plan preparation. The analysis concluded that mixed-use development prototypes consistent with the mixed-use districts established by the Specific Plan would be marketable in the area, but they would only be financially feasible with reduced parking requirements and off-site parking. Otherwise, the “residual values” generated by the various intensities of mixed-use development,

given then-existing prices and development costs, were not adequate to offset land acquisition and assembly costs. Even with reduced parking requirements, the residual values indicated would be marginal in most instances.

The marginal economics of redevelopment of existing built areas in the downtown means that substantial redevelopment, as envisioned in the Urban Core Specific Plan, will simply not occur until market conditions improve. Additionally, even with improved market conditions, the building prototypes evaluated, including those mixed-use buildings subjected to the 45-foot height limit, pose a particular problem. The 45-foot limit would likely limit the building to two stories over a street-level podium.

Typically, successful mixed-use buildings that are replacing existing uses require three or four stories over the podium with heights of at least 50 feet or higher. In fact, the prescribed floor area ratio (FAR)—the ratio of building size to parcel size—of 2.0 in the V-2 district probably cannot be achieved within the 45-foot height limit given the requirements for parking and open space amenities (paseos and plazas) that are also a requirement of the Specific Plan. While subgrade parking is a possibility, some fraction of parking will need to be above grade. Ground area committed to parking would not be available for development programs (income-producing uses). Similarly, the Specific Plan requires that approximately 10 percent of the ground area be in “open uses.” While creating inviting and useable public spaces in the neighborhood is very sound public policy, it will use up ground area that counts in the FAR calculation. Building height (e.g., three to four stories over a street-front podium) provides an offset to these reductions in ground space available and a source of income to offset these project expenses.



## IV. ECONOMIC EFFECTS OF THE PROPOSED INITIATIVE

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The proposed Initiative would have a range of economic and fiscal consequences as summarized in the above conclusions. The key to all these effects, in the near term and the long term, is the permanent nature of the height restrictions imposed by Proposition E. In the short term, as noted above, the effects would primarily relate to the Urban Core Area, specifically the Third Avenue corridor. In this area, the analysis conducted as a part of preparing this report concluded that Proposition E, by eliminating the flexibility the City would otherwise retain, would assure that development potential envisioned along Third Avenue by the Urban Core Specific Plan would not occur. The short term (e.g., during the next decade) effects of Proposition E would primarily be related to this conclusion. In the longer term, other economic effects may be realized if development otherwise feasible from a market perspective is deterred.

### LOSS OF REDEVELOPMENT-RELATED REVENUE

#### DEVELOPMENT SCENARIO

A key conclusion of this analysis is that the permanent height restrictions imposed by Proposition E would limit revitalization efforts in the downtown, specifically reducing or eliminating potential for redevelopment along Third Avenue. To evaluate the economic and fiscal opportunities that may be forgone, an illustrative development scenario has been prepared that estimates development potential in the Third Street Corridor, which encompasses approximately 11 acres of land. This scenario is based upon the development capacity and urban form (building prototypes) envisioned for the V-2 and V-3 districts in the area. In summary, while maximum theoretical development capacity may be greater, it is assumed that some 900,000 square feet of development could occur if feasible buildings were permitted (e.g., mixed-use buildings with three or four stories over a street-front podium), along with required parking facilities and open space amenities. Such buildings would typically be in the range of 50 to 60 feet tall. **Table 3** shows the scale and mix of uses included in this development potential. It is assumed on an overall average that 60 percent of the floor space would be residential, with 25 percent being retail and 15 percent being office (retail and office uses being generally located within the street-front podium of the buildings).

#### REDEVELOPMENT AGENCY TAX INCREMENT FUNDING

If development that could otherwise occur is not realized, the City would have lost an opportunity to gain substantial property tax increment funding for its RDA. **Table 4** shows the property tax associated with the development potential. At completion, nearly \$2.7 million of property tax would be generated annually. The net amount annually available to the RDA after accounting for the 20 percent set-aside for affordable housing and “pass-throughs” to other taxing entities would be in the range of \$1.6 million.

**Table 3**  
**Analysis of the Proposed Chula Vista Building Height Initiative, EPS #18024**  
**Third Avenue Land Use Assumptions**

Land Use	Total Units	Persons per Unit	Total Square Footage	Sq. Ft. per Employee	Total Population and Employees
<u>Population</u>					
<b>Residential</b>					
Mixed Use [1]	450	2.00	540,000	N/A	900
<u>Employees</u>					
<b>Nonresidential</b>					
Specialty Retail	N/A	N/A	225,000	350	643
Office/Other	N/A	N/A	135,000	350	386
<b>Total Nonresidential</b>	<b>N/A</b>		<b>360,000</b>		<b>1,029</b>
<b>Total Residential and Nonresidential</b>	<b>450</b>		<b>900,000</b>		<b>1,929</b>
<b>Total Persons Served [2]</b>					<b>1,414</b>

[1] Assumes approximately 1,200 sq. ft. per residential unit.

[2] Total persons served is the total population plus half of the total employees.

**Table 4**  
**Analysis of the Proposed Chula Vista Building Height Initiative, EPS #18024**  
**Estimated Gross Property Tax Increment Revenue (2008\$)**

Item	Assumption	Formula	Residential Mixed Use	Nonresidential		Total	Total All Land Uses
				Retail	Office		
			<i>Units</i>	<i>Bldg. Sq. Ft.</i>			
<b>Units / Building Square Feet</b>		<i>a</i>	450	225,000	135,000	<b>360,000</b>	
			<i>Per Unit</i>	<i>Per Bldg. Sq. Ft.</i>			
<b>Gross Assessed Value per Unit/ Bldg. Sq. Ft. 2008 [1]</b>		<i>b</i>	\$385,000	\$400	\$400		
Less Lot Land Value [2]	15.0%	$c = b * 15\%$	\$57,750	\$60	\$60		
Less Homeowner's Exemption [3]		<i>d</i>	\$7,000	N/A	N/A		
<b>Net Assessed Value per Unit/ Bldg. Sq. Ft. [4]</b>		$d = b - c - d$	<b>\$320,250</b>	<b>\$340</b>	<b>\$340</b>		
<b>Total Assessed Valuation</b>		$e = a * d$	<b>\$144,112,500</b>	<b>\$76,500,000</b>	<b>\$45,900,000</b>	<b>\$122,400,000</b>	<b>\$266,512,500</b>
<b>1% Property Tax Revenue</b>	1.0%	$f = e * 1\%$	<b>\$1,441,125</b>	<b>\$765,000</b>	<b>\$459,000</b>	<b>\$1,224,000</b>	<b>\$2,665,125</b>

[1] Assumes average value of residential units is \$350 per sq. ft. of a 1,100 sq. ft. housing unit.

[2] Assumes typical land value is 15% of improved property price.

[3] An owner-occupied single-family residence is allowed a \$7,000 reduction of the assessed value of the property for the purposes of calculating property tax.

[4] Net assessed value reduces the total assessed valuation for the estimated land value that may already be placed on the Assessor's tax roll.

## OTHER CITY REVENUES

In addition to the property tax accruing to the RDA, the development along Third Avenue would also generate sales taxes and subvention revenues associated with the increased population in the area. **Table 5** shows the sales potential of retail development in the area, which is assumed to be primarily eating and drinking establishments, various specialty retail uses, and personal and business services. At typical sales rates for such development, some \$67 million of sales could occur in this space if successfully built and tenanted. As shown on **Table 6**, these sales would generate, after accounting for the recent exchanges of sales and property taxes, some \$700,000 in sales taxes to the City. Additional revenues are generated on a per capita basis by the City. **Table 7** shows that the new population in the area would generate approximately \$25,000 in annual subvention revenue to the City.

## POTENTIAL LOSS OF HOSPITAL EXPANSION ECONOMIC ACTIVITY

There are two hospitals located in Chula Vista, a branch of the Scripps Mercy Hospital located on H Street in downtown Chula Vista and the Sharp Chula Vista Medical Center located off Telegraph Canyon Road in eastern Chula Vista. Both of these hospitals will need to expand at some time in the future to meet growing demand for medical services and to maintain modern, efficient facilities. In fact, both hospitals are currently operating at or beyond their physical capacity. Maintaining adequate hospital and medical facilities locally is essential for public health and safety. The hospitals are also substantial generators of economic activity, providing high-paying jobs for local residents and supporting considerable purchases of local goods and services. The two hospitals have approximately 2,500 employees and operating budgets of nearly \$400 million.

Sharp Chula Vista Medical Center currently has 330 beds along with a medical office building. Anticipating the need to expand as Chula Vista continues to grow, the medical center completed a Master Plan in 2004. The Master Plan involves construction of a multi-story hospital tower with at least 100 beds along with additional parking facilities, a cancer treatment center within a new medical office building, all located at the medical center's current site. Site constraints, along with operational and structural considerations, dictate steel tower-type construction with seven or eight stories and 100 to 120 feet in height. Current plans call for the new hospital building to be operational in 2011.

Scripps Mercy Hospital currently has an approximately 150-room hospital building along with adjoining medical office building and other facilities. The hospital is distinguished by its high emergency room visits (39,000 annually) for a facility of its size. The hospital building is an older facility in need of reconstruction not only to meet growing patient demands but also to respond to the seismic safety standards set forth

**Table 5**  
**Analysis of the Proposed Chula Vista Building Height Initiative, EPS #18024**  
**Annual Taxable Sales From Third Avenue Retail Development (2008\$)**

Item	Formula	Specialty Retail	Total Estimated Taxable Sales
<b>Total Retail Building Square Footage</b>	<i>A = Table 3</i>	225,000	<b>225,000</b>
<b>Annual Sales per Square Feet</b>	<i>B</i>	\$350	
Taxable Retail Sales Factor	<i>C</i>	85%	
<b>Annual Taxable Sales per Square Feet</b>	<i>D = B x C</i>	<b>\$298</b>	
<b>Annual Taxable Sales From On-Site Retail Development</b>	<i>E = A * D</i>	<b>\$66,937,500</b>	<b>\$66,937,500</b>

**Table 6**  
**Analysis of the Proposed Chula Vista Building Height Initiative, EPS #18024**  
**Estimated Annual Sales and Use Tax Revenues (2008\$)**

Item	Formula	Source/ Assumption	Quantity
<b>Annual Taxable Sales From On-Site Retail Development</b>	<i>A</i>	Table 5	<b>\$66,937,500</b>
<b>Total Annual Sales Tax Revenue</b>			
Bradley Burns Sales Tax Rate	$B = A * 1.00\%$	1.0000%	\$669,375
Less Property Tax In Lieu of Sales Tax Rate (SB 1092/AB 2115)	$C = A * 0.25\%$	0.2500%	\$167,344
<b>Subtotal Annual Sales Tax Revenue</b>	$D = B - C$	<b>0.7500%</b>	<b>\$502,031</b>
<b>Annual Property Tax In-Lieu of Sales Tax Revenue</b>	$E = A * 0.2500\%$	<b>0.2500%</b>	<b>\$167,344</b>
<b>Total Annual Sales Tax and Property Tax In-Lieu of Sales Tax Revenue</b>	$F = D + E$	<b>1.0000%</b>	<b>\$669,375</b>

**Table 7**  
**Analysis of the Proposed Chula Vista Building Height Initiative, EPS #18024**  
**Estimated Annual Per Capita Revenues (2008\$)**

Item	Formula	Total
<b>Impacted Area Population</b>	<i>A = Table 3</i>	900
<b>Revenue Source</b>		
<b>Motor Vehicle License Fee Revenue</b>		
Estimated 2005-06 Motor Vehicle License Fee Revenue [1]	<i>B</i>	\$267,030,000
State of California Population (2005) [1]	<i>C</i>	30,706,106
Per Capita Motor Vehicle License Fee Multiplier	<i>D = B/C</i>	\$8.70
<b>Total Per Capita Motor Vehicle License Fee Generated by Impacted Area</b>	<i>E = A x D</i>	<b>\$7,830</b>
<b>Gas Tax Fund Revenue</b>		
Estimated 2007-08 Gas Tax Fund Revenue [3]	<i>F</i>	\$4,269,058
City of Chula Vista Population (2007) [2]	<i>G</i>	227,723
Per Capita Gas Tax Fund Revenue Multiplier	<i>H = F/G</i>	\$18.75
<b>Total Per Capita Gas Tax Fund Revenue Generated by Impacted Area</b>	<i>I = A x H</i>	<b>\$16,872</b>
<b>Total Per Capita Revenue Generated by Third Avenue Residential Development</b>	<i>J = E + I</i>	<b>\$24,702</b>

Source: California State Controller's Office, City of Chula Vista, San Diego Association of Governments, and EPS.

[1] Motor Vehicle License Fee is derived from the California State Controller's Office 2005-06 shared revenue estimates.

[2] Population is projected from the San Diego Association of Governments.

[3] The amount of the Gas Tax Fund transferred to the City General Fund is derived from the City of Chula Vista 2007-08 Proposed Budget.

in State legislation (SB 1943). Financial constraints have prevented needed renovations to the hospital, estimated to cost some \$25 million. Constructing new medical office space on the site would be one source of funding to help with the costs of the renovation project. As a large employer and generator of economic activity, Scripps Mercy Hospital is an important “anchor” of downtown businesses.

Proposition E would require Sharp Chula Vista Medical Center and Scripps Mercy Hospital to obtain voter approval for their expansion and renovation plans. This requirement would, at the minimum, add expense and time to the schedule for planned improvements. If they choose not to take the risk of an election or if propositions fail at the ballot, the expansion plans would be curtailed and, especially in the case of Scripps Mercy, because of the need for expansion for medical office facilities as a part of project financing, could even threaten continued long-term operation of the downtown facility.

There are examples from other cities where hospitals for one reason or another are incapable of making necessary renovations and expansions. In these cases the hospitals become less attractive to top medical talent and referrals by physicians, thereby shifting business to other facilities in the region, thus furthering their decline.

## **ADDITIONAL CITY EXPENSES**

As noted above, election costs will be incurred by the City for the pending election on Proposition E and all subsequent efforts to gain exemption from the provisions of Proposition E. These election costs, which are assumed to be borne by the City, would depend upon whether the election is a general or special election. At a general election, the additional item on the ballot is presently estimated to be in the range of \$50,000. A single-issue special election would cost \$500,000. There would also be staff costs involved in the various amendments to the General Plan and the Municipal Code zoning districts; although since little analysis or technical work would be involved, the time should not be significant.